In August 2016 Standard and Poors will designate REITs as the 11th GICS sector, separating the asset class from the Financials sector, representing approximately 3% of the total equity market. This will mark yet another important milestone in the history of U.S. REITs being increasingly recognized as a defined institutional asset class. We believe that the move to a separate GICS classification will have important consequences for the industry, including:

**More influence from real estate factors:** The current classification of REITs as Financials mean that they are likely influenced by the volatility and price movements of other companies in this sector, including banks, asset managers and insurance companies. By having a distinct classification, REITs may be less influenced by non-real estate factors, allowing them to be a more effective component of a real estate allocation.

**More attention from generalists:** As REITs are currently a small part of the large Financials sector, it is easier for equity portfolio managers to ignore REITs in their investment allocation decisions. We believe that creating a separate GICS sector for REITs will provide greater investor interest in the group over time and should broaden the appeal of the sector among general equity investors. It is estimated that generalist equity investors are significantly underweight U.S. REITs (versus their expected index weight) by up to $119 billion2.

**More attention from fiduciaries:** Pension funds and other fiduciaries that manage their equity allocations internally will now be faced with a new distinct section of their portfolio, which may require specialist expertise to manage. That skill set could be built internally but may prove more cost effective to be accessed through an external manager. In addition, the creation of a distinct GICS classification for REITs may encourage other fiduciaries such as 401k managers to include a REIT allocation if they have not already.

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1 Bloomberg, Global Industry Classification Standard, as of March 21, 2016. REITs category has been manually segregated from Financials.
2 Evercore ISI: Just how underweight REITs are general equity investors today, February 26th 2016.

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Scott Crowe is the Chief Investment Strategist at CenterSquare Investment Management and joined the firm in 2015. Scott is member of CenterSquare’s listed real estate, listed infrastructure and private real estate investment committees. In this capacity he works with each teams portfolio managers and investment professionals in the leadership of the investment process, with a particular focus on thought leadership by synthesizing our real asset views across the business. Scott is the portfolio manager of the Global Concentrated real estate securities strategy. Scott also works directly with CenterSquare’s clients, providing education and guidance on the market and helping them execute their investment goals. Prior to joining CenterSquare, Scott was CIO of Liquid Alternatives at Resource Real Estate where he built and led a global investment and distribution platform. Prior thereto, Scott was the lead Global Portfolio Manager for Cohen & Steers, where he was responsible for $10B in assets under management and led the investment and research team of over 20 portfolio managers and analysts. Prior to this, Mr. Crowe held the position of Head of Global Real Estate for UBS Equities Research, where he built and managed the U.S. REIT division while leading a global team of more than 40 analysts. Scott began his career at Paladin Property Securities and holds an Honors Finance Degree from the University of Technology Sydney and a Bachelor of Commerce from the University of NSW/National University of Singapore.

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